

# Legal Cases on Agency, Fiduciary Duty, and Corporate Governance Practice Test (Sample)

## Study Guide



**Everything you need from our exam experts!**

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# Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

**Remember:** successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

# How to Use This Guide

**This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:**

## **1. Start with a Diagnostic Review**

**Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.**

## **2. Study in Short, Focused Sessions**

**Break your study time into manageable blocks (e.g. 30 - 45 minutes). Review a handful of questions, reflect on the explanations.**

## **3. Learn from the Explanations**

**After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.**

## **4. Track Your Progress**

**Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.**

## **5. Simulate the Real Exam**

**Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.**

## **6. Repeat and Review**

**Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.**

**There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!**

## Questions

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- 1. Under which circumstance would the apparent authority of an agent bind the principal to a contract?**
  - A. The third party reasonably relies on the agent's authority due to the principal's representations**
  - B. The third party is unaware of the relationship**
  - C. The principal disavows the agent's authority**
  - D. The agent acts beyond the scope of any apparent authority**
  
- 2. What is the main governing document for an LLC?**
  - A. Operating agreement.**
  - B. Articles of incorporation.**
  - C. Shareholders' agreement.**
  - D. Bylaws.**
  
- 3. Under the exhaustion rule, which statement is generally correct?**
  - A. Creditors may seize partner assets before partnership assets.**
  - B. Creditor must generally pursue partnership assets before partner assets.**
  - C. Creditors have unlimited access to both partnership and partner assets.**
  - D. The rule applies only to partnerships.**
  
- 4. What is the Revlon duty, and when does it apply in corporate takeovers?**
  - A. Directors must maximize shareholder value during a sale of control; applied when control of the company is at stake.**
  - B. Directors must minimize risk during any takeover; applied when a merger is contemplated.**
  - C. Directors must preserve current management; applied when there is a proxy contest.**
  - D. Directors must reject all takeovers; applied when there is a change in control.**

- 5. Which statement best explains the role of independent directors in aligning decisions with shareholder interests?**
- A. They mainly represent management's interests.**
  - B. They primarily focus on regulatory compliance only.**
  - C. They steer decisions to align with shareholder interests by reducing conflicts of interest.**
  - D. They avoid engagement in strategy.**
- 6. What duties arise for directors toward creditors when a company is insolvent?**
- A. Directors must continue to maximize shareholder value even at the expense of creditors.**
  - B. Directors must avoid worsening insolvency, preserve assets, and consider actions that maximize creditor recovery.**
  - C. Directors must immediately liquidate all assets regardless of value.**
  - D. Directors should ignore creditor interests if it harms shareholders.**
- 7. How does a principal's knowledge of an agent's misconduct impact liability?**
- A. Knowledge can lead to ratification or approval, increasing principal liability; failure to correct known misconduct can also create liability.**
  - B. Knowledge by the principal always absolves the agent of liability.**
  - C. Knowledge has no effect on liability if the misconduct is minor.**
  - D. Knowledge by the principal ensures immunity from liability.**
- 8. Wilkes v. Springside Nursing Home addresses fiduciary duties in a close corporation. What do majority shareholders owe to minority?**
- A. A fiduciary duty of utmost good faith and loyalty; they may take action if they have a legitimate business purpose; minority can show alternatives.**
  - B. No fiduciary duties exist.**
  - C. They owe the same duties as officers of a non-close corporation.**
  - D. They must always share profits equally.**

- 9. How can a board ensure transparency in corporate governance discussions with shareholders?**
- A. Through confidential meetings only.**
  - B. Through timely disclosures, clear minutes, accessible reports, and open channels for shareholder questions.**
  - C. By avoiding questions.**
  - D. By only posting annual reports.**
- 10. If a director becomes aware of a potential opportunity that matches the corporation's line of business, what is their fiduciary duty?**
- A. They may pursue personally if the company shows no interest.**
  - B. They should ignore it entirely.**
  - C. They should present to the company and not pursue it personally.**
  - D. They should disclose to regulators.**

## **Answers**

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1. A
2. A
3. B
4. A
5. C
6. B
7. A
8. A
9. B
10. C

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## **Explanations**

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**1. Under which circumstance would the apparent authority of an agent bind the principal to a contract?**

**A. The third party reasonably relies on the agent's authority due to the principal's representations**

**B. The third party is unaware of the relationship**

**C. The principal disavows the agent's authority**

**D. The agent acts beyond the scope of any apparent authority**

Apparent authority binds a principal when the principal's representations or conduct lead a third party to reasonably believe the agent has authority to act for the principal, and the third party relies on that belief in entering the contract. In this case, the third party reasonably relies on the agent's authority because of the principal's representations. That reliance makes the principal bound to the contract through apparent authority, even if the agent lacked actual authority. If the third party is unaware of the relationship, there's no basis for relying on the agent's authority. If the principal disavows the agent's authority, the principal can no longer be bound by the agent's apparent authority. And if the agent acts beyond any appearance of authority, there's no apparent authority to bind the principal.

**2. What is the main governing document for an LLC?**

**A. Operating agreement.**

**B. Articles of incorporation.**

**C. Shareholders' agreement.**

**D. Bylaws.**

The main concept is which document controls how an LLC is run and how its members interact. The operating agreement is the primary instrument for this, because it lays out who manages the business, how decisions are made (voting rules and thresholds), how profits and losses are allocated, how new members are admitted or how existing ones can leave, restrictions on transfers, and how disputes or deadlocks are resolved. It essentially codifies the internal rules and fiduciary duties that guide everyday operations and member relations. Articles of organization (or certificate of formation) are the filing that creates the LLC with the state and provides basic identifying details; they don't govern internal operations in depth. A shareholders' agreement is a contract used in corporations among holders of stock, not members of an LLC. Bylaws are corporate governance documents; LLCs don't typically use bylaws—the operating agreement serves that governance function for an LLC. Without an operating agreement, the LLC would rely on default state statutes, which may not reflect the members' intentions.

**3. Under the exhaustion rule, which statement is generally correct?**

- A. Creditors may seize partner assets before partnership assets.**
- B. Creditor must generally pursue partnership assets before partner assets.**
- C. Creditors have unlimited access to both partnership and partner assets.**
- D. The rule applies only to partnerships.**

The main idea is that creditors must first use the partnership's own assets to satisfy a partnership debt before turning to the personal assets of the partners. This reflects that a partnership is a separate entity with its own pool of resources, and partners are liable for partnership debts but their personal resources aren't the initial target. If the partnership assets aren't enough to cover the debt, creditors may then pursue the partners' personal assets, given the general liability structure of partnerships. So, the statement that creditors must generally pursue partnership assets before partner assets best captures this rule. The other statements conflict with that priority: seizing partner assets first would bypass the partnership's asset pool, and claiming unlimited access to both sets of assets misstates the ordered recourse. The rule is about how debts of the partnership are collected, not a blanket rule applying to all business forms.

**4. What is the Revlon duty, and when does it apply in corporate takeovers?**

- A. Directors must maximize shareholder value during a sale of control; applied when control of the company is at stake.**
- B. Directors must minimize risk during any takeover; applied when a merger is contemplated.**
- C. Directors must preserve current management; applied when there is a proxy contest.**
- D. Directors must reject all takeovers; applied when there is a change in control.**

When a takeover will result in a change of control, directors' duties shift to maximizing the value of the sale for shareholders. This Revlon duty applies specifically in a sale of control scenario, meaning once control of the company is at stake, the board must act to obtain the best price and terms reasonably available for shareholders, and avoid actions that would undermine those value-maximizing objectives or entrench management. This is why the correct statement frames the duty as maximizing shareholder value during a sale of control and notes it applies when control is at stake. The other ideas don't fit Revlon: the duty isn't a general requirement to minimize risk in any takeover, it isn't about preserving current management in a proxy contest, and it isn't a blanket mandate to reject all takeovers.

5. Which statement best explains the role of independent directors in aligning decisions with shareholder interests?
- A. They mainly represent management's interests.
  - B. They primarily focus on regulatory compliance only.
  - C. They steer decisions to align with shareholder interests by reducing conflicts of interest.**
  - D. They avoid engagement in strategy.

Independent directors provide objective oversight that helps align corporate decisions with shareholder interests by reducing conflicts of interest. Because they have no material ties to management, they can challenge strategy, scrutinize executive compensation, monitor risk, and approve major actions with the goal of enhancing long-term value for shareholders. This independence supports fiduciary duties to owners and underpins governance practices that curb self-serving behavior. In practice, they engage in strategy, oversee performance, and ensure governance mechanisms function to keep management aligned with shareholder value. The other options miss the mark: directing decisions for management's benefit, focusing only on compliance, or avoiding strategy engagement do not capture the proactive, value-oriented oversight that independent directors are intended to provide.

6. What duties arise for directors toward creditors when a company is insolvent?
- A. Directors must continue to maximize shareholder value even at the expense of creditors.
  - B. Directors must avoid worsening insolvency, preserve assets, and consider actions that maximize creditor recovery.**
  - C. Directors must immediately liquidate all assets regardless of value.
  - D. Directors should ignore creditor interests if it harms shareholders.

When a company becomes insolvent, directors' duties shift from maximizing shareholder value to protecting creditors' interests and minimizing losses to them. The best answer reflects that shift by emphasizing avoiding actions that would worsen insolvency, preserving the company's assets, and considering steps that could maximize creditor recovery, such as pursuing restructuring, administration, or an orderly wind-down rather than simply burning value in hopes of a quick payoff to shareholders. This approach aligns with the idea that creditors have priority once the company cannot pay its debts, so directors must act to safeguard value for creditors as a whole, rather than pursue moves that harm creditor recoveries. Choices that push for continuing to favor shareholders, force immediate liquidation without regard to value preservation, or ignore creditor interests run counter to these duties and the purpose of insolvency law.

**7. How does a principal's knowledge of an agent's misconduct impact liability?**

- A. Knowledge can lead to ratification or approval, increasing principal liability; failure to correct known misconduct can also create liability.**
- B. Knowledge by the principal always absolves the agent of liability.**
- C. Knowledge has no effect on liability if the misconduct is minor.**
- D. Knowledge by the principal ensures immunity from liability.**

When a principal knows about an agent's misconduct, liability for the principal can arise through ratification or by failing to correct the wrongdoing. Ratification happens when the principal, with knowledge of the act, affirmatively adopts it or accepts its benefits, treating the act as if the principal had originally authorized it. That act of approval makes the principal legally responsible for the consequences of the misconduct. In governance terms, the principal also has a duty to supervise and curb improper behavior; knowing about misconduct and not acting can breach fiduciary duties and expose the principal or the organization to liability for negligent supervision or for permitting the fraud or harm to continue. The agent, meanwhile, can still be liable for their own misconduct, but the principal's awareness does not shield or immunize either party; it often increases the principal's exposure rather than reducing it.

**8. Wilkes v. Springside Nursing Home addresses fiduciary duties in a close corporation. What do majority shareholders owe to minority?**

- A. A fiduciary duty of utmost good faith and loyalty; they may take action if they have a legitimate business purpose; minority can show alternatives.**
- B. No fiduciary duties exist.**
- C. They owe the same duties as officers of a non-close corporation.**
- D. They must always share profits equally.**

In a close corporation, controlling shareholders owe heightened fiduciary duties to the minority. They must act with utmost good faith and loyalty toward minority shareholders, avoiding self-dealing or actions that unfairly exploit their control. They may pursue legitimate business goals and make decisions that benefit the company, but they must also show consideration for the minority's interests; this includes demonstrating there was a legitimate business purpose and that there were no viable alternatives that would have protected minority shareholders. This framing captures why the option describing a duty of loyalty and good faith, with room for legitimate business purposes and an alternatives safeguard, best fits Wilkes v. Springside Nursing Home. It also aligns with the idea that these duties are heightened in close corporations and are not simply the same as officers' duties in a non-close corporation, nor a requirement to share profits equally.

**9. How can a board ensure transparency in corporate governance discussions with shareholders?**

- A. Through confidential meetings only.
- B. Through timely disclosures, clear minutes, accessible reports, and open channels for shareholder questions.**
- C. By avoiding questions.
- D. By only posting annual reports.

Transparency in corporate governance discussions with shareholders means making information available in a timely, clear, and accessible way so investors can monitor and engage with the board. The best approach combines timely disclosures, clear minutes, accessible reports, and open channels for shareholder questions. Timely disclosures ensure investors receive material developments promptly; clear minutes provide an accurate record of what was discussed and decisions made; accessible reports explain performance, governance practices, and risks in understandable terms; and open channels for questions invite scrutiny and dialogue, supporting fiduciary duties to inform and engage shareholders. By contrast, keeping meetings confidential undermines oversight, avoiding questions shuts down essential dialogue, and posting only annual reports leaves gaps in ongoing updates and context needed for informed judgment.

**10. If a director becomes aware of a potential opportunity that matches the corporation's line of business, what is their fiduciary duty?**

- A. They may pursue personally if the company shows no interest.
- B. They should ignore it entirely.
- C. They should present to the company and not pursue it personally.**
- D. They should disclose to regulators.

Directors must not take for themselves opportunities that belong to the corporation. When a potential opportunity arises that fits the company's line of business, the director has a duty to present it to the board and refrain from pursuing it personally. This is the corporate governance principle known as the business opportunity doctrine: loyalty to the corporation requires that it be given a first chance to capitalize on opportunities within its scope. If the company expresses no interest or refuses the opportunity, the director may pursue it only under proper circumstances and without a conflict of interest, but the initial step is to offer it to the corporation and wait for its decision. Disclosing to regulators is not the standard fiduciary remedy for this scenario, and ignoring the opportunity or pursuing it personally would breach the director's loyalty and fiduciary duties.

## Next Steps

**Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.**

**As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.**

**If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at [hello@examzify.com](mailto:hello@examzify.com).**

**Or visit your dedicated course page for more study tools and resources:**

**<https://casesonagencyfiduciarydutyCorpGov.Examzify.com>**

**We wish you the very best on your exam journey. You've got this!**

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